

**Fotex Holding SE**  
**75, Parc d'activités**  
**L-8308 Capellen**

**R.C.S. Luxembourg B 146.938**

**Consolidated financial statements as at 30 June 2010**

**Fotex Holding SE and its subsidiaries**  
**Consolidated statement of financial position**  
**Figures in EUR**

		June 30	December 31
	Notes	2010	2009
		EUR	EUR
<b>Assets:</b>			
Current assets:			
Cash and short term deposits	4	13,465,567	15,266,401
Other current financial assets	5	204,707	157,259
Accounts receivable and prepayments	6	2,924,204	5,426,818
Income tax receivable		471,029	1,116,079
Inventories	7	7,070,160	7,669,126
Total current assets		24,135,667	29,635,683
Non-current assets			
Property, plant & equipment	8	114,061,153	98,623,366
Deferred tax asset		396,376	419,236
Intangible assets	10	2,662,229	2,844,347
Other non current financial assets	5	5,778,697	5,597,265
Goodwill arising on acquisition	11	9,796,530	10,361,520
Total non current assets		132,694,985	117,845,734
Total assets:	19	156,830,652	147,481,417
<b>Liabilities and shareholder's equity</b>			
Current liabilities:			
Provisions		443,221	474,542
Accounts payable and other liabilities	12	5,978,483	8,931,819
Total current liabilities:		6,421,704	9,406,361
Non-current liabilities:			
Interest bearing loans and borrowings	15	38,920,733	25,308,474
Other long-term liabilities	12	2,050,618	2,040,474
Deferred tax liability		650,611	688,133
Total non current liabilities		41,621,962	28,037,081
Shareholder's equity:			
Issued capital	13	30,543,933	30,543,933
Additional paid in capital		32,895,729	32,895,729
Goodwill write off reserve	13	(1,695,471)	(1,856,818)
Retained earnings	27	66,167,612	67,493,126
Treasury shares, at cost	13	(19,205,137)	(19,121,608)
Equity attributable to equity holders of the parent company		108,706,666	109,954,362
Minority interests in consolidated subsidiaries		80,320	83,613
Total shareholder's equity		108,786,986	110,037,975
Total liabilities and shareholder's equity		156,830,652	147,481,417

See the accompanying notes to the consolidated financial statements.

**Fotex Holding Se and its subsidiaries**  
**Consolidated Income statement**  
**Figures in EUR**

		June 30	
	Notes	2010	2009
		EUR	EUR
Revenue	19	18,279,115	18,281,525
Cost of sales		4,082,634	4,345,374
Gross income		14,196,481	13,936,151
Selling, general and administration expenses	14	10,318,515	10,104,789
Interest income		695,888	276,389
Interest expense		575,240	163,693
Income before income taxes	19	3,998,614	3,944,058
Income tax expense	16	786,142	846,356
Net income		3,212,472	3,097,702
Attributable to			
Equity holders of the parent company		3,215,667	2,932,489
Minority interest		(3,195)	165,213
Net income		3,212,472	3,097,702
Earnings per share	23	0.05	0.05
Diluted earnings per share	23	0.05	0.05

See the accompanying notes to the consolidated financial statements.

**Fotex Holding SE its subsidiaries**  
**Consolidated Statement of Comprehensive Income**  
**Adatok EUR-ban**

		June 30	
	Notes	2010	2009
		EUR	EUR
Net income		3,212,472	3,097,702
Other comprehensive income:			
Exchange differences on translation of foreign operations	18	(4,379,932)	(2,489,838)
Total comprehensive income		<u>(1,167,460)</u>	<u>607,864</u>
Attributable to:			
Equity holders of the parent company		(1,164,167)	427,818
Minority interest		<u>(3,293)</u>	<u>180,046</u>
		<u>(1,167,460)</u>	<u>607,864</u>

See the accompanying notes to the consolidated financial statements.

**Fotex Holding SE and its subsidiaries**  
**Consolidated Statements of Changes in Equity**

**30 June 2010**

	Issued Capital	Additional Paid- in Capital	Goodwill Write off Reserve	Retained Earnings (Note 27)	Treasury shares	Total	Minority Interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
1 January 2010	30,543,933	32,895,729	(1,856,818)	67,493,126	(19,121,608)	109,954,362	83,613	110,037,975
Profit for first half of 2010	–	–	–	3,215,667	–	3,215,667	(3,195)	3,212,472
Other comprehensive income	–	–	–	(4,379,834)	–	(4,379,834)	(98)	(4,379,932)
Total comprehensive income	–	–	–	(1,164,167)	–	(1,164,167)	(3,293)	(1,167,460)
Redeemed treasury shares (Note 13.)	–	–	–	–	(83,529)	(83,529)	–	(83,529)
Minority dividends	–	–	–	–	–	–	–	–
Reversed written off goodwill reserve (Note 13.)	–	–	161,347	(161,347)	–	–	–	–
30 June 2010	30,543,933	32,895,729	(1,695,471)	66,167,612	(19,205,137)	108,706,666	80,320	108,786,986

See accompanying notes to the consolidated financial statements.

**Fotex Holding SE and its subsidiaries**  
**Consolidated Statements of Changes in Equity**

**30 June 2009**

	Issued Capital	Additional Paid-in Capital	Goodwill Write off Reserve	Retained Earnings	Treasury shares	Total	Minority Interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
1 January 2009	27,465,688	32,895,729	(2,179,511)	70,745,443	(18,612,487)	110,314,862	35,497	110,350,359
Profit for first half of 2009	–	–	–	2,932,489	–	2,932,489	165,213	3,097,702
Other comprehensive income	–	–	–	(2,504,671)	–	(2,504,671)	14,833	(2,489,838)
Total comprehensive income	–	–	–	427,818	–	427,818	180,046	607,864
Redeemed treasury shares	–	–	–	–	(509,121)	(509,121)		(509,121)
Minority dividends	–	–	–	–	–	–	(46,345)	(46,345)
Reversed written off goodwill reserve	–	–	161,347	(161,347)	–	–	–	–
Share conversion*	3,078,245	–	–	(3,078,245)	–	–	–	–
30 June 2009	30,543,933	32,895,729	(2,018,164)	67,933,669	(19,121,608)	110,233,559	169,198	110,402,757
*Further to the transformation of Fotex, the Company's issued capital was translated into EUR on 1 January 2009 at the rate 264.78 HUF /EUR. The difference between the opening rate in 2009 and the rate in the articles of association has been shown as a correction to the share capital.								

See accompanying notes to consolidated financial statements

**Fotex Holding SE and its subsidiaries**  
**Consolidated Statements of Cash Flows (EUR)**

	30 June 2010	30 June 2009
	EUR	EUR
Cash flows from operating activities:		
Income / (Loss) before minority interests and income taxes	3,998,614	3,944,058
Cash received without repayment liability		(582)
Cash given without repayment liability		1,102
Transaction cost relating to loan	(121,322)	(99,359)
Income / (Loss) before minority interests and income taxes after correction	3,877,292	3,845,219
Depreciation and amortization	2,472,128	1,914,176
Provision used and reversed	(5,746)	(118,432)
Scrapped inventories, impairment loss of debtors and investments, reversed impairment loss	156,317	(56,279)
Gain on disposal of tangible and intangible assets	(924)	7,118
Interest income	(695,888)	(480,138)
Interest expense	575,240	163,693
Changes in assets and liabilities:		
Accounts receivable and prepayments	2,267,744	727,446
Change in current assets (without accounts receivable and cash)	597,368	(429,237)
Accounts payable and accrued expenses	(2,500,925)	(123,790)
Cash flows from operating activities	6,742,606	5,449,776
Income taxes paid	(786,142)	(846,357)
Net cash from operating activities:	5,956,464	4,603,419
Cash flows from investing activities:		
Purchase of tangible and intangible assets:	(21,078,628)	(25,897,757)
Sale of tangible and intangible assets:	6,700	76,845
Change in investments	(742,620)	913,482
Interest received	695,888	276,389
Net cash used in investing activities:	(21,118,660)	(24,631,041)
Cash flows from financing activities:		
Loans granted	199,962	21,122
Loans received	13,733,585	18,377,000
Dividend paid		(43,245)
Interest paid	(575,240)	(163,693)
Purchase of treasury shares	(83,529)	(486,206)
Change in subordinate and other long term liabilities	121,403	-
Cash received without repayment liability:	-	620
Cash given without repayment liability:	-	(1,175)
Net cash used in financing activities:	13,396,181	17,704,423
Net increase/decrease in cash and cash equivalents:	(1,766,015)	(2,323,199)
Cash and cash equivalents at beginning of year	15,266,401	18,130,262
Effect of foreign currency translation	(34,819)	174,012
Cash and cash equivalents at 30 June:	13,465,567	15,981,075
See accompanying notes to consolidated financial statement		

## 1. General information

Fotex Group's report on its operations in the first half of 2010 is prepared in accordance with IFRS requirements. These figures are consolidated but not audited.

As part of the Group's restructuring process, the scope of subsidiaries taken into account at the consolidation has changed compared to the basis period as follows:

On the cut off date of October 1, 2009 Europtic Kft., Domus Zrt. and Kontúr Zrt. merged into Keringatlan Kft.

Subsidiaries taken into account at the consolidation at 30 June 2010 and at 30 June 2009 are as follows:

Subsidiaries	Principal Activities	Issued capital EUR		Ownership (%)		Voting rights %	
		30/06/2010	30/06/2009	30/06/2010	30/06/2009	30/06/2010	30/06/2009
Ajka Kristály Üvegipari Kft.	Crystal manufacturing and retail	5,050,721	5,050,721	100.0	100.0	100.0	100.0
Balaton Bútor Kft.	Furniture manufacturer	1,325,100	1,325,100	100.0	100.0	100.0	100.0
Balaton Glas Hotel Kft.	Property management	882,922	731,853	100.0	100.0	100.0	100.0
Downington Sàrl.	Investment holding	2,050,000	2,050,000	100.0	100.0	100.0	100.0
Domus Zrt	Property management and furniture retailer	-	6,167,384	-	99.5	-	99.5
Europrizma Kft.	Administration services (Note 25)	35,879	35,879	100.0	100.0	100.0	100.0
Europtic	Advertising	-	2,681,471	-	100.0	-	100.0
Fotex Cosmetics Kft.	Cosmetics retailer	870,723	870,723	100.0	100.0	100.0	100.0
Fotexnet Kft.	Internet retail and other services	226,603	226,603	98.6	98.6	98.7	98.7
Hungaroton Music Zrt.	Music archive	480,399	480,399	99.2	99.2	99.2	99.2
Hungaroton Records Kft.	Music publishing and music retailing	1,707,078	1,707,078	99.8	99.8	100.0	100.0
Keringatlan Kft.	Property management	20,677,166	14,911,889	100.0	100.0	100.0	100.0
Kontúr Zrt	Property management	-	4,699,207	-	99.9	-	99.9
Fotex Netherlands B.V.	Property management	18,000	18,000	100.0	100.0	100.0	100.0
Primo Zrt.	Clothing retailing and wholesaling	1,859,657	1,859,657	100.0	100.0	100.0	100.0
Sigma Kft.	Property services	100,650	100,650	75.1	75.1	75.1	75.1
Székhely 2007 Kft.	Property management	86,109	86,109	99.1	99.1	99.1	99.1
Upington Investments Ltd.	Investment holding	1,710	1,710	100.0	100.0	100.0	100.0



## **1. General information (Continued)**

At their meetings held on 26 September 2008 and 9 December 2008, the shareholders of Fotex Nyrt., Fotex Group's holding company, decided to transform Fotex Nyrt. into a European public limited company. Further to the decision of the shareholders, as of 31 December 2008, the Court of Registration cancelled Fotex Nyrt. from the companies register on the grounds of transformation and, according to the Court's decision dated 9 January 2009, registered FOTEX HOLDING SE Nyilvánosan Működő Európai Részvénytársaság (FOTEX HOLDING SE European public limited company) as of 1 January 2009.

In connection with the transformation into a European public limited company, the dematerialized shares had to be replaced. The replacement took place on 25 February 2009. As a result of the replacement, the product list listed at the Budapest Stock Exchange (BSE) was changed. One dematerialized subscribed share of Fotex Nyrt. at HUF 100 face value is equivalent to one dematerialized subscribed share of Fotex Holding SE Nyrt. at EUR 0.42 face value. The rights related to the shares as set out in the company statutes have remained unchanged.

Following the transformation into a European public limited company, the Company's annual general meeting held on 28 April 2009 decided to move the Company's registered office to Luxembourg. The Company was registered in the Luxembourg (new registered office) companies register at 4 June 2009. The Company's new registered address is at 75, Parc d'activités, L-8308 Capellen, Luxembourg. The Metropolitan Court of Budapest, cancelled the Company from the Hungarian companies register on 28 August 2009.

## **2. Significant accounting policies**

### **Basis of presentation**

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year. The consolidated financial statements have been prepared on a historical cost basis.

### **Statement of compliance**

The subsidiaries of the Group maintain their official accounting records and prepare their individual financial statements in accordance with the accounting regulations of their country of registration. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Effective 1 January 2005, the Group prepares its consolidated financial statements in accordance with IFRS that have been adopted by the EU. At 30 June 2010, due to the endorsement process of the EU, and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

## 2. Significant accounting policies (Continued)

As a result of Fotex's transformation to an SE (Societas Europaea) from 1 January 2009, Fotex Holding SE became a European Company. The reporting currency of the consolidated financial statements is EUR.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of Fotex and its subsidiaries as at 30 June 2010. The financial statements of the subsidiaries are prepared for the same reporting period as Fotex, using consistent accounting policies.

All intra-group balances, revenues and expenses and gains and losses resulting from intra-group transactions are eliminated.

Minority interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within shareholders' equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent. Acquisitions of minority interests are accounted under the entity concept method. The entire difference between the cost of the additional interest in the subsidiary and the minority interest's share of the assets and liabilities reflected in the consolidated balance sheet at the date of the acquisition of the minority interest is reflected as being a transaction between owners.

As a result of its transformation into a European public limited company, the Company's books have been carried in EUR since 1 January 2009. Accordingly, Fotex Group's consolidated financial statements for the first half of 2010 are prepared in EUR.

The functional currency of the group's subsidiaries included in the consolidation – except the 3 foreign subsidiaries – is HUF. Considering that the reporting currency is EUR, it was necessary to convert the elements of Statement of Financial Positions of subsidiaries and the elements of Consolidated Income Statements of subsidiaries from HUF to EUR.

The following FX rates have been applied at the conversion from HUF to EUR:

- Elements of income statement have been converted by using the **current year's MNB average FX rate**
- Elements of assets and liabilities have been converted by using the **MNB FX rate as of June 30, 2010**
- Elements of own equity have been converted by using **MNB FX rate as of December 31, 2008** except the current year's Profit and Loss.

## 3. Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made judgements on the balance sheet date of prior year. The management makes these judgements at the preparation of the annual financial statements, and in the interim financial statements the effect of judgements, which have been made on the prior year's balance sheet date, are applied. The key assumptions concerning the future and other key sources of estimation uncertainty made at the prior year's balance sheet date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities at the preparation of current year's closing annual financial statement. From these the followings have the most significant effect on the figures presented in the financial statement.

### **3. Significant accounting judgements, estimates and assumptions**

#### *Operating Lease Commitments-Group as Lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

#### *Impairment of Goodwill*

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Impairment of Intangibles*

The Group determines whether intangible assets with indefinite useful lives such as merchandising and media rights are impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Deferred Tax Assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilised. On an annual basis significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable income together with future tax planning strategies. There was no recognised tax loss at 31 December 2009

#### *Fair Value of Investment Properties*

The Group determines on an annual basis and presents in the notes the fair value of investment property as the present value of the estimated future cash flows generated from leasing such assets. Future cash flows are determined separately for the following categories of investment property: retail outlets, offices, warehouses and other real estate property using average rental fees currently realisable by the Group; present values are calculated using a uniform discount rate that is considered by management as appropriate for the valuation of real estate property on the relevant markets.

### **4. Cash and cash equivalents**

Liquid assets held at banks bear daily floating interest rates and are deposited for the short-term (1 day to 3 months) in view of the prompt liquidity needs of the Group. Such deposits yield interest according to the applicable short-term rates. The fair value of cash and short-term deposits at 30 June 2010 is EUR 13,465,567 (31 December 2009: EUR 15,266,401).

Cash includes fixed deposits of EUR 6,164,948 (31 December 2009: EUR 7,964,063) at rates ranging from 3.7% to 5.7% (2009: 2% to 9%). The Company has EUR, USD and HUF deposits. The lower rates are on foreign currencies while the higher ones are on HUF.

## 5. Other financial assets

	30 June 2010	31 December 2009
	EUR	EUR
Short term		
Short-term receivables against other companies	34,882	-
Other short-term investment held-to-maturity – less impairment loss	169,825	157,259
Other short-term investments, total	204,707	157,259
	30 June 2010	31 December 2009
	EUR	EUR
Long term		
Investments held to maturity	4,840,569	4,356,649
Loans to senior officers	92,393	265,755
Long-term part of long-term loans to other companies – less impairment loss	845,735	974,861
Other long-term investments, total	5,778,697	5,597,265

### Investments held-to-maturity

Long-term securities held-to-maturity include OTP Bank Nyrt. (“OTP”) bonds purchased by one of the Group’s subsidiary in Luxembourg. The Group has 7,100 subordinated OTP bonds of EUR 1,000 face value each purchased by the Group on 1 and 2 December 2008 and on 27 January 2009 for EUR 3,509,853. The bonds were issued at 19 September 2006 as value date maturing on 19 September 2016 at a rate of 100% of the face value. The bonds bear 5.27% interest and interest is paid on 19 September each year. The cost of the investment, which the Group intends to hold to maturity, less the effective interest at 30 June 2010 is EUR 3,882,591 (31 December 2009: EUR 3,734,520). The applied average effective interest rate is 18%. The fair value of OTP bonds as of June 30, 2010 is EUR 6,175,928 (at 31 December 2009: EUR 5,456,606).

The Group has 1,000 MOL Nyrt (“MOL”) bonds of EUR 1,000 face value each purchased on 10 March 2009 for EUR 524,380. The MOL bonds mature on 5 October 2015 and bear an interest of 3.88% payable on 5 October each year. The cost of the investment, which the Group intends to hold to maturity, less the effective interest at 30. June 2010 is EUR 540,025 (31 December 2009 EUR 517 812). The applied average effective interest rate is 16%. The fair value of MOL bonds as of June 30, 2010 is EUR 898,982 (at 31 December 2009: EUR 822,870).

### Loans to senior officers:

Arm’s length loans granted by Fotex are to senior officers to purchase dividend preference shares totalling EUR 92,393 (31 December 2009: 265,755) (Note 13).

Most other long-term loans represent loans that were granted to companies that had taken over the discontinued operations of Domus Lác Kft. by Domus Zrt. until its merger into Keringatlan.

The amount of loan granted to Domus VIVA Kft is EUR 1,350,801 as of June 30, 2010 (31 December 2009: EUR 1,469,235). The loan was granted at 12 month EURO-LIBOR interest rate. The loan is secured by a mortgage on Domus VIVA Kft.’s assets and prompt collection orders on the company’s bank accounts. The loan matures on 31 August 2012. The accumulated impairment loss on the loan at 30 June 2010 is EUR 598,559 (31 December 2009: EUR 606,616) so the its value less impairment loss at 30 June 2010 is

## 5. Other financial assets (Continued)

EUR 752,242 (31 December 2009: EUR 889,619). The related interest revenue recognised on the loan in the income statement till 30 June 2010 is EUR 8,554 (31 December 2009: EUR 55,778).

The loan agreement have been cancelled with immediate effect on 15 July 2010. On the date of abrogation there has been operative interest in a value of EUR 55,468 and late payment interest in a value of 30,447 over the obligation existing from the loan agreement. The Company converted the hypotheticated total wealth of the pledger into pawn and lien charging claims. The assets put in pawn have been sold to one of the group's member as of August 2, 2010 at a purchase price of EUR 975,525 which includes VAT.

The amount of loan granted to Modusz Alba Kft is EUR 98,653 as of June 30, 2010 (31 December 2009: EUR 104,342). The loan was granted at 12-month EURO-LIBOR interest rate. The loan is secured by a mortgage on Modusz Alba Kft.'s assets and prompt collection orders on the company's bank accounts. The loan was to mature on 31 August 2012. The loan agreement was cancelled with immediate effect on 7 September 2009 as the debtor had failed to meet its timely instalment paying obligations. The total loan was written off.

The amount of loan granted to Domus Store Kft is EUR 95,346 as of June 30, 2010 (31 December 2009: EUR 112,833). The loan was granted at 12-month EURO-LIBOR interest rate.

The loan is secured by a mortgage on Domus Store Kft.'s assets and prompt collection orders on the company's bank accounts. The loan would have initially matured on 31 October 2010 but was rescheduled during 2009 to 31 October 2012. The accumulated impairment loss at 30 June 2010 is EUR 12,557 (31 December 2009: EUR 40,721), so its value less impairment loss is EUR 82,789 at June 30 2010 (31 December 2009: EUR 72,112). The related interest revenue recognised on the total loan in the income statement till 30 June 2010 is EUR 769 (31 December 2009: EUR 1,952)

## 6. Accounts receivable and prepayments

	30 June 2010	31 December 2009
	EUR	EUR
Debtors	2,540,012	5,112,572
Impairment loss on debtors	(659,146)	(697,161)
Tax assets	502,884	364,800
Impairment loss on tax assets	(4,086)	–
Other receivables and prepayments/accrued income	609,495	715,308
Impairment loss on other receivables	(64,955)	(68,701)
Total	<u>2,924,204</u>	<u>5,426,818</u>

The terms applicable to related parties are set out in Note 24.

Debtors typically pay between 0 and 60 days, during this period no late payment interest is charged.

Tax assets are typically received in three months.

Impairment loss on debtors, tax assets and on other receivables at 30 June 2010: EUR 728,187 (31 December 2009: EUR 765,862).

## 6. Accounts receivable and prepayments (Continued)

Movements in the impairment loss:

	EUR
1 January 2009	860,235
Charge for the year	390,164
Utilised	(223,224)
Unused amount reversed	(233,662)
FX loss	(27,651)
	<hr/>
31 December 2009	765,862
Charge for the year	4,086
Utilised	
Unused amount reversed	
FX loss	(41,761)
	<hr/>
30 June 2010	<u>728,187</u>

## 7. Inventories

	30 June 2010	31 December 2009
	EUR	EUR
Merchandise and finished products	7,983,590	8,645,798
Materials	1,340,124	1,399,812
Work in progress	1,609,649	1,826,318
Inventories, gross	<u>10,933,363</u>	<u>11,871,928</u>
Impairment of merchandise and finished products	3,339,060	3,648,431
Impairment of materials	195,961	207,263
Impairment of work in progress	328,182	347,108
Impairment of inventories	<u>3,863,203</u>	<u>4,202,802</u>
	<hr/>	<hr/>
Total inventories, net	<u>7,070,160</u>	<u>7,669,126</u>

Management has identified a number of Group companies that have slow moving inventories. During 2010 some finished goods have been sold for which impairment were created previously, that's why in 2010 inventory impairment in a value of EUR 110,431 has been reversed. Management considers the recognised impairment loss of EUR 3,863,203 as adequate, and as of June 30, 2010 no further inventory impairment has been created.

## 8. Property, plant & equipment

Movements in tangible assets during I. half of the year 2010 were as follows (the table contains the property plant & equipment and investment property together):

	Land, buildings, improvements	Furniture, machinery, equipment, fittings	Construction in progress	Total
	EUR	EUR	EUR	EUR
Cost:				
1 January 2010	114,042,089	20,205,460	1,115,426	135,362,975
Additions	20,175,725	505,233	351,838	21,032,796
Disposals and write downs	(92,262)	(1,510,670)	–	(1,602,932)
Currency (loss)/gain arising from retranslation	(3,923,049)	(1,041,781)	(79,196)	(5,044,026)
30 June 2010	<u>130,202,503</u>	<u>18,158,242</u>	<u>1,388,068</u>	<u>149,748,813</u>
Accumulated depreciation:				
1 January 2010	(19,870,659)	(16,865,398)	(3,552)	(36,739,609)
Depreciation expense	(1,942,232)	(513,028)	(2,332)	(2,457,592)
Disposals and write downs	5,800	1,534,114	–	1,539,914
Currency (loss)/gain arising from retranslation	1,103,856	865,455	316	1,969,627
30 June 2010	<u>(20,703,235)</u>	<u>(14,978,857)</u>	<u>(5,568)</u>	<u>(35,687,660)</u>
Net book value				
30 June 2010	<u>109,499,268</u>	<u>3,179,385</u>	<u>1,382,500</u>	<u>114,061,153</u>
31 December 2009	<u>94,171,430</u>	<u>3,340,062</u>	<u>1,111,874</u>	<u>98,623,366</u>

## 8. Property, plant & equipment (Continued)

Movements in tangible assets during 2009 were as follows (the table contains the property, plant & equipment and investment property together):

	Land, buildings, improvements	Furniture, machinery, equipment, fittings	Construction in progress	Total
	EUR	EUR	EUR	EUR
Cost:				
1 January 2009	78,493,646	21,039,798	1,466,541	100,999,985
Additions	37,491,004	822,576	(373,172)	37,940,408
Disposals and write downs	(336,306)	(1,232,483)	–	(1,568,789)
Currency (loss)/gain arising from retranslation	(1,606,255)	(424,431)	22,057	(2,008,629)
31 December 2009	<u>114,042,089</u>	<u>20,205,460</u>	<u>1,115,426</u>	<u>135,362,975</u>
Accumulated depreciation:				
1 January 2009	(17,226,486)	(17,203,558)	–	(34,430,044)
Depreciation expense	(3,272,979)	(775,282)	(3,552)	(4,051,813)
Disposals and write downs	328,954	756,395	–	1,085,349
Currency (loss)/gain arising from retranslation	299,852	357,047	–	656,899
31 December 2009	<u>(19,870,659)</u>	<u>(16,865,398)</u>	<u>(3,552)</u>	<u>(36,739,609)</u>
Net book value				
31 December 2009	<u>94,171,430</u>	<u>3,340,062</u>	<u>1,111,874</u>	<u>98,623,366</u>
31 December 2008	<u>61,267,160</u>	<u>3,836,240</u>	<u>1,466,541</u>	<u>66,569,941</u>

## 9. Real estate property

The Group's assets principally comprise of real estates owned by the parent company and the subsidiaries and rented out predominantly to third parties. Most of the Group's revenues are realized from real estate utilization. This type of activity is highly sensitive to macroeconomic trends. Real estate market players still have no reason to be optimistic. Experts agree that no change for the better is forecast in 2010 and that the local real estate market will reach its lowest point this year. There is hope for some improvement next year but a perceptible upward movement can only be expected in two or three years time. The current setback that has affected each segment of the real estate market foretells the difficulties of the forthcoming years. As for commercial real estates, the biggest loser of the crisis is the retail sector and even the most optimistic forecasts predict at least another two hard years before an upturn can start. The effect of the adverse market conditions can be strongly felt also in the office and logistics sectors. Demand has further decreased as the overall economic conditions worsened. Both real estate developers and owners find it challenging to keep their existing tenants. Attainable rental fees have significantly declined. As a result of the slowdown in the commercial market, a number of international trading chains hold back expansion and increasingly require that rental fees be linked to actual turnover. In the retail market, local trading companies tend to still hold back expansion and most of them does not envisage opening a new tenancy at all. The so called city



## 9. Real estate property (Continued)

shops offered by the Group suit the requirements of the local trading companies. The majority of our tenants are such traders. As a result of the increasingly adverse market circumstances, smaller companies that operate one or two shops already have serious financial difficulties and their liquidity position is likely to deteriorate even further. Their ability to pay their rents has also suffered. There is an increasing number of tenants that experience financial difficulties and find it increasingly hard to pay their rent and would like to give back their rented area or ask for reduced rental fees and overhead charges in order to keep their tenancy and sustain their operations. Many try to close down the most lost making shops even if such action conflicts with their contractual obligations. Finding new tenants is getting similarly difficult. As a consequence of the changes, contract renegotiation conditions have also become unfavourable and now the main objective is to keep all solvent tenants. In the logistics market, the already normally modest demand further declined at the level of the national economy as a result of the crisis while rental fees also dropped. A continuous increase in the supply of state-of-the-art logistic centres and newly built warehouses make it increasingly difficult for us to rent out our less up-to-date warehouses. At group level, the utilization of warehouses space is the worse and, although did not deteriorate further in the reporting period, but not significant improvement could be achieved and none is expected in the foreseeable future in view of the market trends. The utilization rate of industrial estates is 19.8 %, of which big-box real estates account for 18.5 % and the utilization of urban logistic centres is 31.7 %. In the office space market, the already high vacancy rate is expected to remain the biggest problem for the next two years to come. Rental fees have plummeted as a result of high vacancy rates and moderate demand. In view of the adverse market conditions, the Group pays extra attention to controlling and optimising its costs to attainable revenues. Nonetheless, the Group makes efforts to make the best of investment opportunities offered by the stagnating real estate market. The Group's Dutch subsidiary, Fotex Netherlands B.V., purchased four significant office buildings totalling an area of 20 386 m<sup>2</sup> (Zoetermeer, Gorinchem, Haarlem, Rotterdam) in the basis period and one major office building of 10 000 m<sup>2</sup> area in the reporting period. All these buildings will be fully rented out at good returns in the long run.

Adverse changes in the world's economy have made it particularly necessary to review the value of the Group's real estate properties on an annual basis. Our investment properties were revalued as part of the audited annual financial statements prepared at the end of 2009. The figures disclosed in the annual financial statements for 2009 are considered as relevant values with respect to the Group's real estate property which will be revalued by the Company in the audited financial statement for the current year.

Category	Area m <sup>2</sup>	Fair value EUR
Shops	145,670	165,757,256
Offices	26,831	40,692,869
Warehouses	97,723	13,552,392
Other structures	38,660	5,182,875
Plots of land	671,816	22,409,604
<b>Investment properties, total</b>	<b>980,700</b>	<b>247,594,996</b>
Real estate in own use	294,354	10,884,116
<b>Grand total</b>	<b>1,275,054</b>	<b>258,479,112</b>

Note: The table does not include the new office building with 10,000 m<sup>2</sup> purchased by our Dutch subsidiary at a purchasing price of EUR 18.600.000 + VAT in 2010.

## 10. Intangible assets

Movements in intangible assets in first half of 2010 were as follows:

	Media and merchandising rights	Other	Total
	EUR	EUR	EUR
Cost:			
1 January 2010	6,667,194	943,087	7,610,281
Additions	-	582	582
Disposals and write downs	-	(8,755)	(8,755)
Currency loss arising from retranslation	(263,089)	184,500	(78,589)
30 June 2010	<u>6,404,105</u>	<u>1,119,414</u>	<u>7,523,519</u>
Amortisation:			
1 January 2010	(4,008,798)	(757,136)	(4,765,934)
Amortisation expense	-	(14,537)	(14,537)
Impairment	(170,389)	-	(170,389)
Disposals and write downs	-	-	-
Currency gain arising from retranslation	47,528	42,042	89,570
30 June 2010	<u>(4,131,659)</u>	<u>(729,631)</u>	<u>(4,861,290)</u>
Net book value:			
30 June 2010	<u>2,272,446</u>	<u>389,783</u>	<u>2,662,229</u>
31 December 2009	<u>2,658,396</u>	<u>185,951</u>	<u>2,844,347</u>

The column 'Other' reflects rental rights associated with trading companies. As part of discontinuing its ownership of FTC acquired in 2001 (at a cost of HUF 1.9 billion – ca. EUR 7 million), Fotex acquired certain merchandising rights in FTC (media and brand merchandise, distribution and promotion rights [billboards]) in 2003 for an unlimited period. By 31 December 2005, there was no indication of any impairment. In view of the cash inflows in the near future and estimated potential inflows, management calculated the fair value of these rights based on the expected cash flows discounted at 9%. Based on management's estimation, an impairment loss of EUR 3,149,785 was made in previous years with an additional EUR 1,118,324 impairment loss recognised in 2009 (2008 no impairment loss was recognised)

## 10. Intangible assets (Continued)

Movements in intangible assets for 2009 were as follows:

	Media and merchandising rights	Other	Total
	EUR	EUR	EUR
Cost:			
1 January 2009	6,667,194	1,490,680	8,157,874
Additions	–	26,574	26,574
Disposals and write downs	–	(514,945)	(514,945)
Currency loss/gain arising from retranslation	–	(59,222)	(59,222)
31 December 2009	<u>6,667,194</u>	<u>943,087</u>	<u>7,610,281</u>
Amortisation:			
1 January 2009	(2,890,474)	1,290,683	(4,181,157)
Amortisation expense	–	(42,391)	(42,391)
Impairment	(1,118,324)		(1,118,324)
Disposals and write downs	–	480,005	480,005
Currency loss/gain arising from retranslation	–	95,933	95,933
31 December 2009	<u>(4,008,798)</u>	<u>(757,136)</u>	<u>4,765,934</u>
Net book value:			
31 December 2009	<u>2,658,396</u>	<u>185,951</u>	<u>2,844,347</u>
1 January 2009	<u>3,776,720</u>	<u>199,997</u>	<u>3,976,717</u>

## 11. Goodwill

Movements in goodwill on business combinations at 30 June 2010 and 31 December 2009 were as follows:

	30 June 2010	31 December 2009
	EUR	EUR
Cost:		
1 January	20,555,398	21,025,848
Addition	-	-
Disposal	-	-
FX difference	(1,120,838)	(470,450)
Closing balance	19,434,560	20,555,398
Impairment:		
1 January	(10,193,878)	(10,427,185)
Increase in impairment loss	-	-
FX difference	555,848	233,307
Closing balance	9,638,030	(10,193,878)
Net book value:		
1 January	10,361,520	10,598,663
Closing balance	9,796,530	10,361,520

At the year-end, the Group considered whether there were any indicators of impairment of the value of goodwill. The Group estimated the value in use of cash generating units attributable to goodwill based on operating profits in both the reporting period and the basis period discounted at 10% discount rate. Based on this calculation, no impairment loss was recognised on goodwill.

The goodwill is allocated to the following entities:

	30 June 2010	31 December 2009
	EUR	EUR
Keringatlan Kft.	9,676,042	10,234,083
Balaton Glas Hotel Kft.	120,488	127,437
Net book value	9,796,530	10,361,520

Management estimates that goodwill is not impaired despite any potential changes in the underlying valuation model since the fair value of the investment properties, to which the goodwill relates, are significantly higher than the book value of the properties.

## 12. Accounts payable and other liabilities

	30 June 2010	31 December 2009
	EUR	EUR
Trade payables	2,004,215	2,194,122
Taxes payable (excluding income taxes)	670,375	858,399
Advances from customers	28,266	27,053
Accrued expenses	467,574	877,577
Deferred rental income	1,003,952	2,110,016
Remuneration approved for executive incentive scheme – dividend preference shares (Note 13)	0	651,001
Amounts payable to employees	220,327	145,791
Deposits from tenants (i)	203,048	255,971
Preference shares incentive scheme liability	634,938	634,938
Other liabilities	745,788	1,176,951
Total	5,978,483	8,931,819

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are typically settled on a 20 to 30-day term. Other payables are non-interest bearing and have an average term of 1 to 3 months. Payables to employees are non-interest bearing and represent one monthly salary with contributions. Rental deposits are payable typically within 30 days of the end date of the underlying rental contract.

- (i) The Group has received 2 to 3 months deposits of EUR 2,236,414 (31 December 2009: EUR 2,296,445) from its tenants which are repayable if the related rental contract is terminated. Based on the historical and expected rental cancellation rate, the Group has classified that part of the deposit liabilities as other long-term liabilities EUR 2,033,366 (31 December 2009: EUR 2,040,474) which are expected to be repayable in more than one year, and those parts which are expected within a year were classified as short-term tenant deposit liabilities EUR 203,048 (31 December 2009: EUR 255,971). In addition other long-term liabilities comprise EUR 17,252 warranty guarantee.

### Dividend preference shares in incentive scheme

The general meeting of the Company on 31 August 2007 authorised the Board of Directors to increase the equity capital by a maximum amount of EUR 3,093,041 (HUF 785,818,000), by issuing dividend preference shares (shares with dividend rights only, without voting right) against monetary contribution within 5 years from the date of the general meeting.

These dividend preference shares are to be used as a remuneration and long-term incentive system for executive officers, as well as senior employees. The dividend preference shares are intended to encourage good stewardship in members of management by directly connecting remuneration entitlement of preference shareholders to enhanced performance and stock exchange rates thereby contributing to increasing shareholder value for all. Fotex has an optional redemption right on dividend preference shares which is valid up to five years. Unless Fotex exercises its redemption right within five years of the end of employment of a member of management, the holder of such preference shares may retain its shareholder rights. The dividend rate on the preference shares shall not exceed 50% of the given year's average stock exchange price of Fotex shares, but shall not be less than an amount equivalent to double of the European central bank twelve months base interest rate relevant for

## **12. Accounts payable and other liabilities (Continued)**

the year, applied to the face value of the share. The total sum of the dividend determined for preference dividend cannot exceed 30% of the consolidated IFRS profit after taxes minus minority interests. The total preference dividend payable is subject to approval of the general meeting of the Company. Given the nature of the employee preference shares, the amount of shares in issue are treated as a short-term liability and any dividend payable will be treated as employee expense.

In November 2007, Fotex issued 2,000,000 preference shares with a face value of EUR 840,000 (HUF 200 million). These preference shares were presented in the balance sheet as treasury shares. Group management purchased the dividend preference shares on 28 April 2008. On that date this part of the dividend preference shares were shown as a liability (preference shares incentive scheme liability). Fotex granted arm's length loans to members of management to buy these shares.

On 13 May 2009, the Company's CEO exercised his redemption right under the approved incentive scheme and redeemed the preference shares of the managers of certain subsidiaries where annual profits fell short of their budget. The shares were redeemed at the rates set out in the underlying sale-purchase contracts (120% of the face value). Fotex set off the redemption price payable against the loans and interest receivable from the affected persons under the loan agreements for the purchase of the preference shares. No dividend was paid on the redeemed shares in 2010 either.

The Board of Directors has approved on 9 April 2010 to pay dividends on the dividend preference shares equal to their face value. This dividend payment is subject to formal approval by the shareholders' meeting. The total amount of preference dividends due to members of management of EUR 651,001 is presented among payments to personnel in the consolidated financial statements in 2009. The annual general meeting, which will accept the current year's annual consolidated financial statements, will decide about the possible dividend paid for 2010 relating to dividend preference shares. Interim dividend advance hasn't been determined.

## **13. Share capital and reserves**

### **Share capital**

The Company's approved and issued share capital totals EUR 30,543,933 consisting of shares of EUR 0.42 each. At 30 June 2010, the Company's issued share capital included 70,723,650 ordinary shares and 2,000,000 dividend preference shares (2009.12.31: 70,723,650 ordinary shares and 2,000,000 dividend preference shares). The dividend preference shares were issued by Fotex in November 2007.

### **Treasury shares**

The 2,000,000 dividend preference shares issued by the Company which are shown as part of "Issued Capital" (30 June 2010: EUR 840,000; 31 December 2009: EUR 840,000) are also shown in "Treasury Shares". As of 30 June 2010, the Company has sold 1,550,000 (31 December 2009: 1,550,000) dividend preference shares to some of its employees. These shares are still shown within "Treasury Shares" but also as liability (preference shares incentive scheme liability) as further disclosed in Note 12.

The Company's treasury shares (including dividend preference shares) are 12,632,549, totalling EUR 19,205,137 at 30 June 2010 (31 December 2009: 12,579,779 shares at a cost of EUR 19,121,608). During 2010, the Company purchased 52,770 (2009: 466,510) shares in a value of EUR 83,529 (2009: EUR 348,039). In 2010 the company hasn't bought back dividend preference shares from its senior officers (2009: 450,000 pcs; EUR 161,082), so the preference shares incentive scheme liability has remained unchanged compared to year-end 2009, shown in note 12 above.

### 13. Share capital and reserves (Continued)

#### Goodwill write-off reserve

In 1990, in connection with the transformation of the Company to an Rt. (public limited company) and associated increase in share capital, certain intangible assets of Fotex (principally the “Fotex” name) were valued by an independent appraisal at approximately EUR 7.7 million (HUF 2.05 billion). This amount is shown as an intangible asset in the Company’s local statutory financial statements and is amortised over 24 years. This amount is not shown as an asset, rather as a deduction from shareholders’ equity in these consolidated financial statements.

### 14. Selling, general and administration expenses

	30 June 2010	30 June 2009
	EUR	EUR
Payments to personnel	3,330,787	3,497,985
Material-type expenses	3,752,463	3,864,207
Other expenses	763,137	828,420
Depreciation charges	2,472,128	1,914,177
Total selling, general and administration expenses	10,318,515	10,104,789

Other expenses include the following:

	30 June 2010	30 June 2009
	EUR	EUR
Impairment of intangibles (Note 10)	(170,389)	-
Impairment of receivables (Note 6)	(4,086)	(8,138)
Realised FX gain/loss (net)	32,762	104,637
Unrealised FX gain/loss (net)		13,795
Taxes payable (mostly property tax)	(775,024)	(725,484)
Assets received without payment obligation	178,122	-
Other expenses	(24,522)	(213,230)
Other expenses, total	(763,137)	(828,420)

## 15. Long term liabilities

The significant increase in long-term liabilities compared to the basis period is due to the fact that the Group's Dutch subsidiary, Fotex Netherlands B.V. has taken out 1 more mortgage loan (EUR 14,000,000) from FGH Bank N.V.

The details of loan are presented below:

Loan	Starting Date	Maturity date	Facility	Interest	Value at 30 June 2010
Mortgage loan I	16/04/2009	01/05/2016	EUR 18,400,000	1-month Euribor prevailing on the 2 <sup>nd</sup> working day prior to the first day of the interest period + 2.7 %, rounding: +0.05	EUR 17,898,023
Mortgage loan II	01/11/2009	01/11/2016	EUR 3,800,000	3-month Euribor prevailing on the 2 <sup>nd</sup> working day prior to the first day of the interest period + 2.26 %, rounding +0.05	EUR 3,568,441
Mortgage loan III	18/12/2009	01/01/2015	EUR 3,750,000	3-month Euribor prevailing on the 2 <sup>nd</sup> working day prior to the first day of the interest period 2.20 %, rounding +0.05	EUR 3,657,644
Mortgage loan IV	21/05/2010	01/05/2015	EUR 14,000,000	4.32 %/year	EUR 13,796,625
<b>Total</b>			<b>EUR 39,950,000</b>		<b>EUR 38,920,733</b>

The above loans are secured by mortgage on Fotex's Dutch real estates.

The book values of these real estates at 30 June 2010 were as follows:

2719 EP Zoetermeer, Einsteinlaan 20	10,505,299 EUR
Gorichem, Stadhuisplein 1a, 70 and 70a	13,882,678 EUR
Haarlem, Schipholpoort 20	5,377,198 EUR
3012 BL Rotterdam, Witte de Withstraat 25	5,960,015 EUR
8017 JV Zwolle, Zuiderzeelaan 43-51	19,872,922 EUR

## 16. Corporate tax

The Group has used the enacted Hungarian corporate tax rate as the basis in tax reconciliation as the majority of the Group operates and is subject to corporate taxation in Hungary.

The Group is subject to periodic audit by the Hungarian, Dutch and, Luxembourg Tax Authorities. As the application of tax laws and regulations for many types of transactions are susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the relevant Tax Authority.

The Corporate income tax rate is 16% in Hungary, however, effective from 1 September 2006 the Hungarian government introduced an additional, so called solidarity tax of 4% payable on statutory accounting profits made in the period from 1 September 2006.



## **16. Corporate tax (Continued)**

As of 1 January 2010, the corporate tax rate increased to 19% in Hungary and the above solidarity tax was abandoned as of the same date. Deferred tax assets and liabilities have been calculated at the effective tax rate of 19%.

Owing to the move of Fotex's and Upington's registered offices during 2009, the effective income tax rate in Luxembourg is 22% plus municipal tax.

The Group has no carried forward losses which could be written off from taxable income of the Group members as such losses have arisen in subsidiaries that have been loss-making for some time and, in view of the current economic trends, are not expected to generate profits in the foreseeable future against which any such carried forward loss could be written off. As a result of the above, carried forward losses of EUR 6,672,314 were not considered in the consolidated financial statements of which EUR 6,613,527 can be rolled forward for an indefinite period.

## **17. Discontinuing operation**

The Group had no discontinuing operations in either 2009 or in the period of I-VI months of 2010.

## **18. Other comprehensive income components**

Foreign exchange differences arising on the translation of the functional currencies to EUR of subsidiaries whose functional currency is other than EUR are presented through other comprehensive income. Such foreign exchange differences arise from the fluctuations between EUR and the functional currency of the subsidiaries during the year.

## **19. Segment information**

For management purposes, the Group is divided into 7 business lines:

- Furniture production and sales
- Investment property management
- Household goods and cosmetics
- Crystal and glass
- Music records production and distribution
- Clothing
- Other – administration and holding activities

Management separately evaluates the performance of its operating segments in order to make decisions regarding resource allocation and other decisions related to operations management. The performance of each segment is based primarily on the pre-tax profit or loss of each segment as identified based on the principles pertaining to the operating profit or loss presented in the financial statements.

Decisions regarding financing (including financial revenues and expenses) and taxation are made at Group level and not at segment level.

## 19. Segment information (Continued)

The profit or loss of each business segment contains revenues and expenses directly attributable to the segment and revenues and expenses that can be reasonably allocated to the segment from the Group's total profit or loss attributable to transactions with third parties or with other Group segments. The transfer prices applied in inter-segment transactions are based on the cost of the transaction as increased by the margins set out in the underlying Group policies. Profit is distributed among the segments before adjustment for minority interests.

The Group has operations in Hungary, in The Netherlands and in Luxembourg. Mostly the Group's operations are carried out in Hungary, geographical segments are not presented in the consolidated financial statements.

Segment assets and liabilities reflect operating assets and liabilities directly or reasonably attributable to each segment. Assets attributable to each segment are presented at cost less any impairment loss in the Group consolidated financial statements.

Corporate and other items include primarily general overhead and administrative costs that relate to the Group as a whole and assets that are not directly attributable to any of the segments, for example short-term and long-term investments and liabilities that serve financing rather than operating purposes.

Capital expenditures in the reporting year reflect the total cost of segment assets that are expected to be used for more than one period (properties, equipment, fittings).

Net sales:	30 June 2010				30 June 2009	
	Net Sales external EUR	Net Sales inter- segment EUR	Net sales EUR	Net Sales external EUR	Net Sales inter- segment EUR	Net sales EUR
Furniture	1,015,495	50,363	1,065,858	1,777,338	42,990	1,820,328
Investment property	11,070,527	797,401	11,867,928	10,464,120	969,236	11,433,356
Electrical, household goods and cosmetics	379,834	232	380,066	566,893	2,313	569,206
Crystal and glass	3,457,563	125	3,457,688	1,775,555	6,335	1,781,890
Music	845,357	82,186	927,543	1,541,677	43,252	1,584,929
Clothing	320,598	—	320,598	394,918	-	394,918
Advertising*	—	—	—	59,737	231,147	290,884
Other	1,189,741	562,783	1,752,524	1,701,287	748,124	2,449,411
Inter-segment elimination	—	(1,493,090)	(1,493,090)	—	(2,043,397)	(2,043,397)
Net sales	<u>18,279,115</u>	<u>—</u>	<u>18,279,115</u>	<u>18,281,525</u>	<u>-</u>	<u>18,281,525</u>

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

## 19. Segment information (Continued)

Crystal and glass sales mainly reflect export sales realised in foreign currencies. Nearly half of net own produced furniture sales is from export. Other sales mainly reflect domestic sales realised in HUF.

Profit before tax	30 June 2010	30 June 2009
	EUR	EUR
Furniture	(162,722)	246,426
Investment property	4,133,504	5,083,594
Electrical, household goods and cosmetics	(34,191)	(41,475)
Crystal and glass	486,056	(787,741)
Music	12,217	146,678
Clothing	7,960	28,641
Advertising*	–	(188,487)
Other	(444,210)	(543,578)
Profit before tax:	<u>3,998,614</u>	<u>3,944,058</u>

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

Assets:	30 June 2010			31 December 2009		
	Consolidated assets EUR	Intra- business line assets EUR	Total assets EUR	Consolidated assets EUR	Intra- business line assets EUR	Total assets EUR
Furniture	3,184,806	10,785	3,195,591	3,779,498	56,565	3,836,063
Investment property	130,341,915	731,064	131,072,979	121,911,947	675,238	122,587,185
Electrical, household goods and cosmetics	1,437,707	3,748	1,441,455	2,309,278	103,977	2,413,255
Crystal and glass	9,280,045	4,915	9,284,960	6,391,881	2,944,620	9,336,501
Music	1,142,437	–	1,142,437	1,387,029	48,524	1,435,553
Clothing	1,671,573	–	1,671,573	1,764,776	12,661	1,777,437
Advertising*	–	–	–	163,792	517	164,309
Other	9,772,169	1,142,716	10,914,885	9,773,216	778,043	10,551,259
Balances among business lines set off		(1,893,228)	(1,893,228)	–	(4,620,145)	(4,620,145)
Total assets:	<u>156,830,652</u>	<u>–</u>	<u>156,830,652</u>	<u>147,481,417</u>	<u>–</u>	<u>147,481,417</u>

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

## 19. Segment information (Continued)

Liabilities and accruals	30 June 2010			31 December 2009		
	Consolidated liabilities EUR	Intra-business line payables EUR	Total liabilities EUR	Consolidated liabilities EUR	Intra-business line payables EUR	Total liabilities EUR
Furniture	222,121	77,420	299,541	320,473	56,760	377,233
Investment property	43,359,665	17,515,759	60,875,424	31,710,526	11,512,361	43,222,887
Electrical, household goods and cosmetics	104,590	112,376	216,966	200,855	104,237	305,092
Crystal and glass	2,207,006	6,011,496	8,218,502	2,386,778	6,233,581	8,620,359
Music	130,280	6,493	136,773	239,925	15,334	255,259
Clothing	45,790	2,140	47,930	55,405	12,738	68,143
Advertising*	–	–	–	30	517	547
Other	1,974,214	698,276	2,672,490	2,529,450	615,022	3,144,472
Balances among business lines set off		(24,423,960)	(24,423,960)	–	(18,550,550)	(18,550,550)
Liabilities and accruals	48,043,666	–	48,043,666	37,443,442	–	37,443,442

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

Tangible asset additions:	30 June 2010 EUR	31 December 2009 EUR
Furniture	40,384	895
Investment property	20,836,550	37,704,336
Electrical, household goods and cosmetics	280	11,731
Crystal and glass	7,252	144,922
Music	3,100	13,238
Clothing	324	7,217
Advertising*	–	–
Other	145,488	84,643
Tangible asset additions:	21,033,378	37,966,982

  

Depreciation:	30 June 2010 EUR	30 June 2009 EUR
Furniture	31,729	28,241
Investment property	2,157,283	1,551,356
Electrical, household goods and cosmetics	29,026	34,048
Crystal and glass	145,979	143,791
Music	18,550	34,827
Clothing	5,025	5,387
Advertising*	–	1,438
Other	84,536	115,089
Depreciation:	2,472,128	1,914,177

\* Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

## **20. Financial risk management objectives and policies**

The Group's primary financial liabilities, other than derivatives, include creditors, operating lease contracts and loans taken to purchase properties. The Group's various financial receivables include debtors, cash and, short-term deposits and loan receivables. The Company's Group's liquid assets are held in larger banks in Hungary, Luxembourg and in the Netherlands. Financial liabilities and receivables are directly attributable to the Group's operations.

The highest risks related to the Group's financial instruments are FX risk, lending risk and interest risk. Management monitors the management of all these risks and applies the following risk management procedures.

### *Risks associated with assets*

In view of its losses on its subsidiaries in Ajka and Balaton furniture factory, management has been revising its strategy related to its operation at Ajka and Balaton Bútor Kft. Irrespective of the final strategy of the Group, management believes that the value of the currently used production facilities will be recovered.

### *Interest risk*

The Group entered into EUR loans to buy properties in the Netherlands for the period between 2009 and 2016. The loan interests vary between one month EURO-LIBOR + 2.2-2.7%. The interest risk of these loans has been kept at the % of the applicable EURO-LIBOR % (3.3 to 3.64%) except for a smaller loan of EUR 3.75m. In order to reduce interest risk, the lending banks charge a 0.7% interest guarantee with respect to 70% of all loans taken.

### *Foreign currency ("FX") risk*

Financial instruments that potentially represent risk for the Group include FX debtors other than in EUR, FX creditors and FX deposits. The Group's rental contracts are stipulated in EUR or on EUR basis thus mitigating any FX risk associated with non-EUR revenues. Many EUR-based rental contracts are billed in HUF based on the applicable daily spot rate. In order to mitigate the risk of FX losses from any potential unbeneficial EUR/HUF rate fluctuations, the Group normally sets out a minimum EUR/HUF rate in its rental contracts.

The Group also has FX risks on transactions – which occurs when the Group buys or sells in a currency other than its functional currency.

According to management, beyond the Group's FX risks, the risk associated with the actual profit or loss position stems from the volume or orders and market demand which depends on global market trends rather than on FX rate fluctuations.

### *Lending risk*

The Group aims to mitigate lending risk by its careful and continuous debtor portfolio monitoring process and by requiring bank guarantees, advances and collaterals. In addition, the Group regularly follows up information about the main creditors in the market.

## **20. Financial risk management objectives and policies (Continued)**

### *Liquidity risk*

Liquidity risk is monitored as follows:

- Monitoring daily available deposited and free cash by entity
- Monitoring weekly cash flows by entity
- As part of the management information system, the Group monitors the operations of each entity on a monthly basis.

### *Capital management*

The Group has significant amounts of cash which is used for intra-group financing as necessary. In 2006, the Group switched from bank loans to intra-group financing and financing costs and risks have significantly diminished as a result across the Group.

### *Fair value*

At 30 June 2010 and 31 December 2009, the carrying values of liquid assets, short-term investment, receivables, liabilities and accruals approximated their fair values owing to their short-term nature. Receivables are presented in the balance sheet at cost less impairment loss on doubtful debts.

## **21. Investments in subsidiaries**

During the first 6 month of 2010. the Group has not entered into such transactions, the ongoing merging of Balaton Glas Hotel Kft. into Keringatlan Kft. is an event after the reported period.

During 2009, Fotex Group entered into the following transactions and mergers:

- On 5 February 2009, Upington Investment Ltd. moved its headquarters from Cyprus to Luxembourg.
- At 29 February 2009, KONT-VESZ Kft. merged into Kontúr Zrt.
- At 4 March 2009, Keringatlan Kft. established a subsidiary in the Netherlands - Fotex Netherlands B.V., to create, develop and manage a property portfolio in the Netherlands.
- On the cut-off date of October 1, 2009, Europtic Kft., Domus Zrt. and Kontúr Zrt. merged into Keringatlan Kft.

## **22. Operating leases**

The Group leases retail sites within shopping centres and at 4 other locations in Budapest based on non-cancellable operating lease agreements. The Group recalculates its leasing fees by ending of each year and publishes them in its financial statement.

## **23. Earnings per share**

Basic earnings per share is calculated based on the weighted average number of ordinary shares in issue during the year less treasury shares held by the Company. Similarly, totally diluted earnings per share is also calculated based on the weighted average number of ordinary shares in issue during the

## 23. Earnings per share

year as adjusted by the estimated value of an issue of potentially convertible securities. For the calculation of totally diluted earnings per share, net earnings are adjusted with any gains and expenses that relate to potentially convertible securities.

Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares:

	30 June	
	2010	2009
	EUR	EUR
Net profit attributable to equity holders from continuing operations	3,215,667	2,932,489
Net profit / (loss) attributable to shareholders	3,215,667	2,932,489
Weighted average number of shares in issue during the year	60,113,259	60,316,124
Basic earnings/(deficit) per share (EUR)	0.05	0.05

## 24. Related party transactions

### Principal related parties

Gábor Várszegi, Chairman of the Board of Fotex, directly or indirectly controls a part of the voting shares of Blackburn International Inc. ("Blackburn"), a Panama company and Blackburn International Inc. ("Blackburn Luxembourg"), a Luxembourg company and Zurich Investments Inc. ("Zurich"), a British Virgin Islands company. Blackburn Luxembourg has a controlling interest in Fotex Ingatlan Kft. ("Fotex Ingatlan") and Plaza Park Kft. ("Plaza Park"). At 30 June 2010, Blackburn controls 16.9% of the Company's share capital (30 June 2009: 16.9%), Zurich controls 14.1% (30 June 2009: 14.1%), Fotex Ingatlan controls 17.6% (30 June 2009: 17.6%), and Plaza Park 1.6% (30 June 2009: 1.6%). These companies are considered to be related parties.

### Related party rental transactions

In case of Plaza Park office accommodation agreements were modified in December, 2000, and were extended until 31 December 2006. Based on their options, Fotex Nyrt. and its subsidiaries renegotiated rental contracts and extended them until 31 December 2011. The rental fees are adjusted with the harmonized customer price index (EU27) reported by the European Union's Statistical Office (Eurostat). Rental agreements with Fotex Ingatlan Kft. were modified to an indefinite rent period.

Rental fees are increased annually by the average of the general CPI announced by the EU's Statisticals Office. Rental and other related fees paid to Fotex Ingatlan for 2010 I-VI month were EUR 181,688 (2009 I-VI month: EUR 170,734) and to Plaza Park EUR 317,099 for 2010 I-VI month (2009 I-VI month: EUR 334,966). Based on the aircraft leasing contract concluded between Blackburn International Inc. and Fotex Holding SE the value of the fees for aircraft leasing and connected services invoiced by Blackburn International Inc. were EUR 63,140 in 2010 I-VI month (2009 I-VI month EUR 10 500 EUR)

## **24. Related party transactions (Continued)**

### Transactions with other related parties

There were no significant related party transactions in either 2009 or in 2010.

## **25. Personal and structural changes**

### *Structural changes:*

Europrizma Kft's scope of activities has changed and, since 1 February 2010, has been providing administrative services to other enterprises instead of advertising agency services.

### *Personal changes*

There were no changes in the Group's management in the reporting period.

## **26. Other matters**

According to the resolution of the shareholders meeting No. 23/2000, on 2 May 2001, Fotex Nyrt. converted all its shares with the involvement of Keler Rt.

At that date, 70,388,664 shares were replaced and 334,986 old shares were not converted by their holders. In accordance with prevailing legal regulations, the Company made the unconverted shares void. The new shares that replaced the void ones were sold by the Company in the most optimal way that best served the interest of the shareholders. The consideration received less incurred costs are forwarded to the holders of the void shares after the 30th day, 15 November 2001, following the sale of all the shares that replaced the void shares as compensation for the void shares. Of the void shares, consideration relating to 164,897 shares has been paid up to this date and the holder of 170,089 void shares has not come forward as yet.

Fotex Nyrt's ordinary shareholders' meeting held on 28 April 2004 decided to convert Fotex Nyrt's printed shares into dematerialised shares. The conversion to dematerialised shares took place on 11 November 2004. The conversion does not affect the rights related to the shares. The printed shares could be presented for conversion between 10 September 2004 and 10 November 2004.

On 11 November 2004, all printed shares were made void by Fotex Nyrt.

Consideration for 1,210 shares made void due to dematerialization has been paid up to this day, the holders of 140 void shares have not come forward as yet.

At Fotex Holding SE Nyrt's ordinary shareholders meeting held on 28 April 2009, the shareholders decided to move the Company's registered office to Luxembourg. At this general meeting, the shareholders made a decision about the determination of the share of equity to be allotted to shareholders that voted against moving the registered seat to Luxembourg as well as about the way and timing of redemption. The share of equity to be allotted to shareholders that voted against moving the registered seat to Luxembourg was determined by the shareholders' meeting as 0.89 EUR/share based on the equity/issued capital ratio as at 31 December 2008. The meeting authorized the Board of Directors to redeem such shares. Settlement has since been done with the two shareholders that voted against moving the registered office with 52,870 shares.

According to resolution No. 5/2010.04.26, at their ordinary annual meeting held on 26 April 2010, upon approving the financial statements for 2009, Fotex Holding SE's shareholders decided to distribute dividends to the holders of dividend preference shares equalling the face values of the shares.



## **26. Other matters (Continued)**

On 26 October 2009, Ajka Kristály Üvegipari Kft. signed a solvency agreement with its creditors. As a result of the agreement, the debtor wishes to pay off its debts that are included in the scope of the solvency agreement without late payment penalty and other charges from sales revenues to be collected up to 30 April 2012 from selling own manufactured inventories as at 1 September 2009. In the meantime, interim instalments would be paid by 15 January 2011 and by 15 January 2012. The debtor assumed an obligation to pay all its creditors up to HUF 200,000 by 14 November 2009, which was duly done. The sole owner of the company, the creditor, Fotex Holding, and two entities under direct majority control of the owner, Upington Ltd. and Downington Holding LLC., asserted that they did not demand settlement of the debts towards them until Ajka Kristály Kft. met its obligation towards its other creditors under the solvency agreement. The creditors that attended the agreement negotiation meeting engaged Piroska Gazda, a statutory auditor who also attended the meeting as representative of one of the creditors, Meritum Kft., to check compliance with the terms of the agreement.

In the first half of 2010, Ajka Kristály Kft. managed to utilize its entire capacity, which had been reduced to market demand, with a positive lookout to the future of the market.

The securities with ISIN-code T0008806916, (so-called “certificates”), which were previously traded on the Vienna Stock Exchange, have been withdrawn from Stock Exchange’s trading for the request of Company as of June 30, 2010. Fotex ordinary share with ISIN-code HU0000096409 have been automatically credited on the accounts of the owners of the certificates kept at their custodian bank in 1:1 proportion. The credit has been taken place automatically 3 workdays after the withdrawal of the certificates. Our company has entrusted the Erste Group Bank AG with the technical transaction of the SWAP of securities.

## **27. Restatement of Consolidated financial statement as of June 30, 2010**

The Company has corrected the presentation of preference shares incentive scheme, which previously was shown as retained earnings and which was reclassified to the liability to management participating in the scheme. This correction resulted in a reclassification of EUR 634,938 from shareholders’ equity to liabilities.

The detailed impact of this change on the balance sheet June 30, 2010 is shown below:

June 30, 2010	EUR
Retained earnings as presented	66,802,550
Retained earnings as restated	66,167,612
Preference shares incentive scheme liability as presented	-
Preference shares incentive scheme liability as restated	634,938

This correction resulted in a decrease of the 30 June 2010 shareholder’s equity of EUR 634,938 and had no impact on the 2010 net income and on the 2010 cash flow statement.